HAT ISLAND TELEPHONE COMPANY

Reviewed Financial Statements

December 31, 2014 and 2013

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JOHNSON STONE & PAGANO, P.S.
CERTIFIED PUBLIC ACCOUNTANTS
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Independent Accountant's Review Report

Board of Directors
Hat Island Telephone Company
Langley, Washington

We have reviewed the accompanying balance sheets of Hat Island Telephone Company (the "Company") as of December 31, 2014 and 2013, and the related statements of income, stockholder's equity and cash flows for the years then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the reviews in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Johnson, Stone & Pagano, P.S.

JOHNSON, STONE & PAGANO, P.S.

March 9, 2015

REVIEWED FINANCIAL STATEMENTS

HAT ISLAND TELEPHONE COMPANY

BALANCE SHEETS

December 31, 2014 and 2013

	2014	2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 25,928	$ 115,855
Telecommunications accounts receivable	1,792	3,271
Due from affiliated company	148,229	28,402
Prepaid expenses		935
Total Current Assets	175,949	148,463
PROPERTY, PLANT AND EQUIPMENT		
Telecommunications plant in service	424,221	424,221
Less allowances for depreciation	298,400	282,248
Total Telecommunications Plant	125,821	141,973
TOTAL ASSETS	$ 301,770	$ 290,436
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 312	$ 970
Taxes, other than income taxes	2,598	2,721
Deferred revenue	1,131	
Total Current Liabilities	4,041	3,691
STOCKHOLDER'S EQUITY		
Capital stock, par value $10 per share;		
Authorized - 2,500 shares		
Issued and outstanding - 400 shares	4,000	4,000
Retained earnings	293,729	282,745
Total Stockholder's Equity	297,729	286,745
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	$ 301,770	$ 290,436

See independent accountant's review report and accompanying notes to financial statements.

HAT ISLAND TELEPHONE COMPANY

STATEMENTS OF INCOME

Years Ended December 31, 2014 and 2013

	2014	2013
OPERATING REVENUES		
Local network service revenues	$ 18,604	$ 19,004
Network access service revenues	34,653	25,012
Miscellaneous revenues	4,472	4,743
Other operating revenues	22,338	20,843
Total Operating Revenues	80,067	69,602
OPERATING EXPENSES		
Plant specific operations	9,581	19,245
Depreciation	16,152	19,764
Customer operations	6,091	7,839
Corporate operations	21,479	17,504
Other operating expenses	12,634	11,348
Taxes, other than income taxes	3,146	6,432
Total Operating Expenses	69,083	82,132
NET INCOME (LOSS)	$ 10,984	$ (12,530)

See independent accountant's review report and accompanying notes to financial statements.

HAT ISLAND TELEPHONE COMPANY

STATEMENTS OF STOCKHOLDER'S EQUITY

Years Ended December 31, 2014 and 2013

	Capital Stock	Retained Earnings	Total
BALANCE AT DECEMBER 31, 2012	$ 4,000	$ 295,275	$ 299,275
Net loss		(12,530)	(12,530)
BALANCE AT DECEMBER 31, 2013	4,000	282,745	286,745
Net income		10,984	10,984
BALANCE AT DECEMBER 31, 2014	$ 4,000	$ 293,729	$ 297,729

See independent accountant's review report and accompanying notes to financial statements.

HAT ISLAND TELEPHONE COMPANY

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 10,984	$ (12,530)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities		
Depreciation of telecommunications plant	16,152	19,764
Net change in operating assets and liabilities	(117,063)	(581)
Net Cash Provided (Used) by Operating Activities	(89,927)	6,653
CASH FLOWS FROM INVESTING ACTIVITIES		
Salvage on retired property, plant and equipment		1,200
Net Cash Provided by Investing Activities		1,200
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(89,927)	7,853
Cash and Cash Equivalents at Beginning of Year	115,855	108,002
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 25,928	$ 115,855
COMPONENTS OF NET CHANGE IN OPERATING ASSETS AND LIABILITIES		
(Increase) decrease in assets		
Telecommunications accounts receivable	$ 1,479	$ (341)
Due from affiliated company	(119,827)	(3,392)
Prepaid expenses	935	375
Increase (decrease) in liabilities		
Accounts payable	(658)	56
Taxes, other than income taxes	(123)	2,721
Deferred revenue	1,131	
NET CHANGE IN OPERATING ASSETS AND LIABILITIES	$ (117,063)	$ (581)

See independent accountant's review report and accompanying notes to financial statements.

HAT ISLAND TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Telephone Industry

Hat Island Telephone Company (the "Company") is a local exchange telecommunications company providing local exchange, other telecommunications services including digital subscriber lines and internet access services to customers in Hat Island, Washington.

The Company is a small rate-of-return carrier. The recent Federal Communications Commission ("FCC") Report and Order and Further Notice of Proposed Rulemaking, ("FCC 11-161") reformed the universal service and intercarrier compensation systems. These reforms modified the manner in which the Company recovers its telecommunications revenue requirements.

Accounting Records

Accounting records are maintained in accordance with the Uniform System of Accounts ("USOA") prescribed by the FCC and, to the extent permitted by the USOA, accounting principles generally accepted in the United States of America. The accounting methods observed by the Company for book and recording purposes are subject to the concurrence of the Washington Utilities and Transportation Commission ("WUTC").

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments to be cash equivalents.

Accounting for Long-lived Assets

The Company periodically reviews long-lived assets such as property, plant and equipment for potential impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. At December 31, 2014, management has determined that there were no material impairment charges to be recorded as of that date.

Regulated Telecommunications Plant, Maintenance and Depreciation

Regulated telecommunications plant is stated at original cost. The cost of additions to plant includes contracted work, direct labor, materials and overhead. When units of property are retired, the original cost plus removal costs, less salvage, is charged to accumulated depreciation with no gain or loss recognized. The costs of normal maintenance and repairs are charged to operating expense. Depreciation is computed using the straight-line method for financial reporting and accelerated methods for income tax purposes.

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition, Major Customers and Services

Services provided by the Company include local network, network access services as well as other services. In the normal course of business of the Company, certain network access service revenues are subject to out-of-period adjustments. Such adjustments are normal occurrences and are recorded by the Company during the year in which they become determinable.

Network access service revenues, which represent a major portion of the Company's operating revenues, are derived from the provision of exchange access services to interexchange carriers or to end users of telecommunication services.

The FCC 11-161 modified and replaced the existing universal service and intercarrier compensation systems, with universal service reform and intercarrier compensation reform. A Connect America Fund has been established to replace all existing high-cost support mechanisms and sets broadband service requirements. Alongside the broadband service rules, reforms to establish a framework to limit reimbursements for excessive capital and operating expenses have been implemented as of July 1, 2012 and phase outs of certain support payments occurred. Intercarrier compensation reform adopts a uniform bill-and-keep framework as the ultimate end state for all telecommunications traffic exchanged with the Company. Intercarrier compensation rates are capped and the disparity between intrastate and interstate terminating end office rates are being brought to parity in two steps as outlined in FCC 11-161. The state's public utilities commissions will be overseeing the modifications to rates in intrastate tariffs. Limits on carriers' total eligible recovery will reflect existing downward trends on intercarrier compensation revenues with declining switching costs and minutes of use.

The Company continues to review the reforms and modifications to the support that the Company receives and understands that those reforms and modifications will have an adverse effect on the Company's revenues and cash flow. Revenue impacts are subject to change based on future data submissions and further clarification from the FCC.

Revenues for intrastate access services are received through tariffed access charges filed by the Company at the WUTC. Once filed, the tariffed access charges become effective if specifically approved by the WUTC or allowed to become effective by operation of law. The intrastate switched access charges are billed by the Company to intrastate interexchange carriers. Intrastate special access charges are also billed to intrastate interexchange carriers that order such services and, in some cases, to retail customers that order special access services. Before July 1, 2014, the switched access charges associated with carrier common line and state universal service fund were pooled with all Washington Exchange Carrier Association ("WECA") member companies and the Company received a distribution of net revenues based upon the Company's proportionate share of WUTC approved revenue objectives of all participating WECA member companies.

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition, Major Customers and Services *(Continued)*
Effective July 1, 2014, the WUTC implemented a state universal communications service program ("State USF Program") that temporarily replaced the terminated universal service support pool ("Traditional USF") administered by WECA and also replaced the cumulative reduction in support the Company received from the federal Connect America Fund ("CAF"). The State USF Program was to begin January 2015 which resulted in a cash flow issue for some of the companies that met the WUTC criteria to be eligible for such support. The WUTC granted a one-time partial distribution in 2014 of the State USF Program equal to the amount the Company received from the Traditional USF for 2012 in the amount of $2,029. The remainder of the annual distribution, which was comprised of the cumulative reduction in CAF support of $571, was disbursed in January 2015. Subsequent annual disbursements comprised of the Traditional USF and the disbursement of the cumulative CAF deficit support are scheduled to occur in January of the following State USF Program years, assuming the Company continues to be eligible under the program. The State USF Program year runs from July 1 to June 30, therefore, the Company accrued $1,131 as deferred revenue due to the State USF Program for the period July 1, 2014 to December 31, 2014 for the unearned portion of the State USF Program revenues received. The State USF Program is scheduled to last for five program years.

As of July 31, 2014, WECA terminated the pooling of originating carrier common line ("CCL") minutes of use and the Company opted to keep its' existing originating CCL rate, which was allowed by the WUTC to become effective as a matter of law.

For some of the services that the Company provides to its customers, the Company relies upon services and facilities supplied to it by other companies. Any material disruption of the services or facilities supplied to the Company by other companies could potentially have an adverse effect upon the Company's operating results.

Federal Income Taxes
Taxable earnings and losses of the Company are included in the tax return of the Company, amounts from which are then included in the tax return of the Company's stockholder and taxed at the applicable tax rate of the stockholder.

The Company provides for the measurement and disclosure of uncertain tax positions recognized in the Company's financial statements. Management is of the opinion that the income tax positions taken by the Company meet the more-likely-than-not threshold that the tax returns filed by the Company have greater than a 50 percent chance of being sustained under examination of the Internal Revenue Service. The Company's federal income tax returns for the tax years ending before December 31, 2011 are closed to examination.

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates and assumptions used in preparing the accompanying financial statements.

Subsequent Events
The management of the Company evaluated for subsequent events and transactions for potential recognition and disclosure through March 9, 2015 the date of completion of the accountant's review procedures. All identified material events or transactions have been recorded or disclosed.

NOTE 2 - CONCENTRATION OF CREDIT RISK

The Company maintains cash balances at a financial institution in western Washington, insured by the Federal Deposit Insurance Corporation up to $250,000. The Company periodically maintains cash balances in excess of the federally insured limits. At December 31, 2014, the Company's cash balance did not exceed the insured amount.

In addition, at December 31, 2014, the Company has a total deposit of $2,601 in money market funds with a broker-dealer. The funds are insured by the Securities Investor Protection Corporation up to $500,000 for brokerage accounts with a limit of $250,000 for claims of uninvested cash balances and additional brokerage insurance through the broker-dealer's underwriters as stated in the broker-dealer account agreement.

The Company's accounts receivable are subject to potential credit risk as they are unsecured.

NOTE 3 - TELECOMMUNICATIONS ACCOUNTS RECEIVABLE

The telecommunications accounts receivable balances consist of:

	2014	2013
Due from customers and agents	$ 633	$ 1,524
Due from exchange carriers and exchange carrier associations	1,159	1,747
	$ 1,792	$ 3,271

NOTE 3 - TELECOMMUNICATIONS ACCOUNTS RECEIVABLE (Continued)

The Company extends credit to its business and residential customers based upon a written credit policy. Service interruption is the primary vehicle for controlling losses. Telecommunications accounts receivable are recorded when subscriber bills, carrier access bills and exchange carrier associations settlement statements are rendered. Certain exchange carrier associations' settlements are subject to out-of-period adjustments and are recorded during the year in which they become determinable. Telecommunications accounts receivable are written off when they are determined to be uncollectible. The Company believes no allowance for doubtful accounts is necessary at December 31, 2014. As of December 31, 2014, approximately 4% of telecommunications accounts receivable were outstanding ninety days or more after the date of the invoice on which they were first billed.

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Regulated Telecommunication Plant
As required by the USOA, telecommunications plant is stated at its original cost, when first devoted to public service.

Major classes of the telecommunications plant assets in service as of December 31, 2014 and 2013 are:

	2014	2013
General support facilities	$ 190,487	$ 190,487
Central office equipment	58,529	58,529
Cable and wire facilities	175,205	175,205
	$ 424,221	$ 424,221

Provisions have been made for depreciation of the major classes of the telecommunications plant at straight-line rates as follows:

General support facilities	
Buildings	2.61%
Tools and other work equipment	16.00%
Central office equipment	7.20%
Cable and wire facilities	3.10%

Depreciation Expense
The provisions for depreciation on telecommunications plant in service were $16,152 and $19,764 for years ending December 31, 2014 and 2013, respectively.

NOTE 5 - DUE FROM AFFILIATED COMPANY

Amounts due from affiliated company include amounts receivable from Whidbey Telephone Company ("Whidbey"). The amounts receivable from Whidbey are payments or advances made by the Company less the result of work performed by Whidbey's work crews on behalf of the Company. The amounts are unsecured, non-interest-bearing and are to be repaid by Whidbey in the ordinary course of business. At December 31, 2014 and 2013, the Company had made payments to Whidbey in excess of the amounts billed by Whidbey.